

Introduction

hospTRENDS reviews the current plus previous 12 quarters, which equals three years plus one quarter. The data upon which hospTRENDS is based is provided by the hospitals in Washington through quarterly submission of financial and utilization information. At time of publication of this edition, the following hospitals had not submitted data for one or more of the first three quarters of 2009: Dayton General Hospital, East Adams Rural Hospital, Prosser Memorial Hospital and Quincy Valley Hospital. Our web site information and a short description of the data we have available are at the end of the report.

Quarterly Quick Review

Below is a summary table of the statewide trends. The total number of discharges by period increased 2.2%. This is the fifth consecutive period with a greater than 2.0% growth in this number. Between the periods beginning third quarter 2002 and ending fourth quarter 2004 increases were between 0.38% and 1.68%. Patient days have grown 0.6% in this period, down from 2.2% in the prior period. The previous high in recent years was 4.0% for the period ending September 30, 2008. Average length of stay decreased to 4.28, down slightly from last period's 4.34 days.

Deductions from revenue grew at a 17.6% rate, continuing a cycle where the growth in deductions had been slightly higher each period in 2007 and 2008. The operating revenue grew significantly slower (7.5%) than operating expenses (8.4%) which translates into an operating margin decrease of 7.9% from the previous period. Operating expense grew by 8.4%, which is within the annual percentage change range of the past 10 years that includes a low of 7.5% and a high of 10.9%. Charity care grew at 24.9% compared to recent growth of up to 81.2%. Bad debt continued recent trends with an increase of 14.4%. Charity care's rate of change has been more volatile recently than bad debt, which had seen decreasing rates of change in past nine periods, reversing in the current period.

Statewide Summary of Quarterly Reports

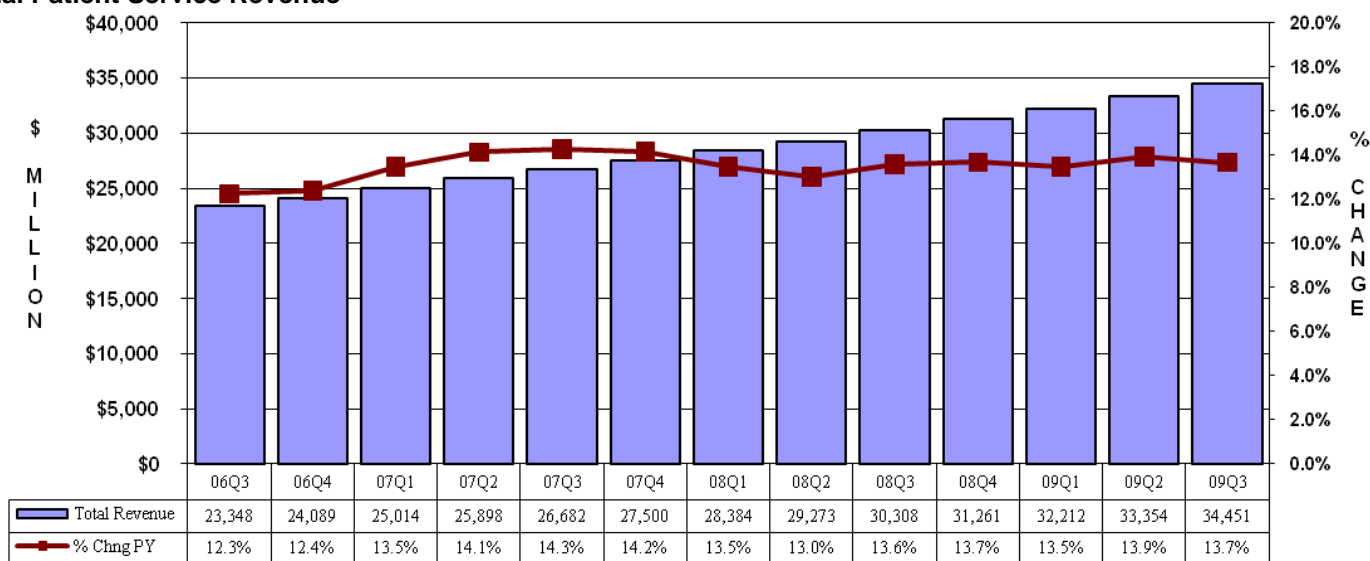
	4 Quarter Period Ending		Percent	2009 Percent
	9/30/2008	9/30/2009	Difference	of Tot Rev
Discharges	577,942	590,474	2.2%	
Patient Days	2,509,682	2,524,956	0.6%	
Average Length of Stay	4.34	4.28	-1.5%	
+ Total Revenue	30,308,009,526	34,450,821,891	13.7%	
- Deductions from Revenue	16,965,844,176	19,947,325,636	17.6%	57.9%
= Net Revenue	13,342,165,350	14,503,496,255	8.7%	42.1%
+ Other Operating Revenue	890,138,827	790,072,260	-11.2%	2.3%
= Operating Revenue	14,232,304,177	15,293,568,515	7.5%	44.4%
- Operating Expenses	13,419,779,671	14,545,387,382	8.4%	42.2%
= Operating Margin	812,524,506	748,181,133	-7.9%	2.2%
+ Other Income/Tax Revenue	16,708,616	86,417,991	417.2%	0.3%
= Total Margin	829,233,122	834,599,124	0.6%	2.4%
Charity Care	661,232,698	825,601,754	24.9%	2.4%
Bad Debt	662,843,988	758,121,982	14.4%	2.2%
Operating Margin	5.69	4.86	-14.5%	
Total Margin	5.80	5.40	-6.9%	

FINANCIAL INDICATORS

Total Patient Service Revenue

Total billed charges for patient services, which are identified as total patient service revenue or total revenue, increased by \$4.1 billion from \$30.3 billion to \$34.5 billion for the period ending September 30, 2009. The annual increase rate of 13.7% is similar to recent rates. The annual dollar increase had been between \$2.05 and \$2.55 billion each four-quarter year for sixteen periods, but has now advanced to over \$3 billion in each of the last ten periods. The billed charges are based on common billing charge sheets that the hospital uses for all patients regardless of the payer and regardless of any contractual adjustments.

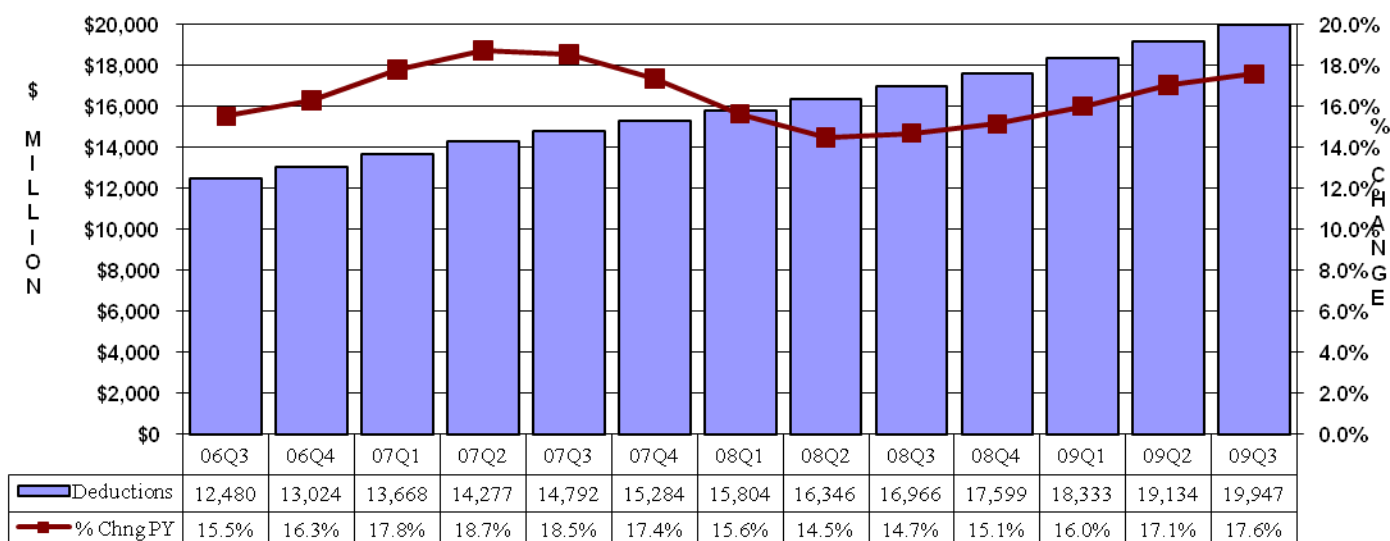
Total Patient Service Revenue



Total Deductions from Revenue

For the twelve months ended September 30, 2009 total deductions from revenue reached \$19.9 billion. This was an increase of \$2.98 billion, or 17.6% over the previous period ending September 30, 2008. Total deductions from revenue have been more than 50% of total patient service revenue since the four quarters ending September 2004. Total deductions include contractual adjustments and charity care. Deductions are the difference between what the hospital billed and what they were paid.

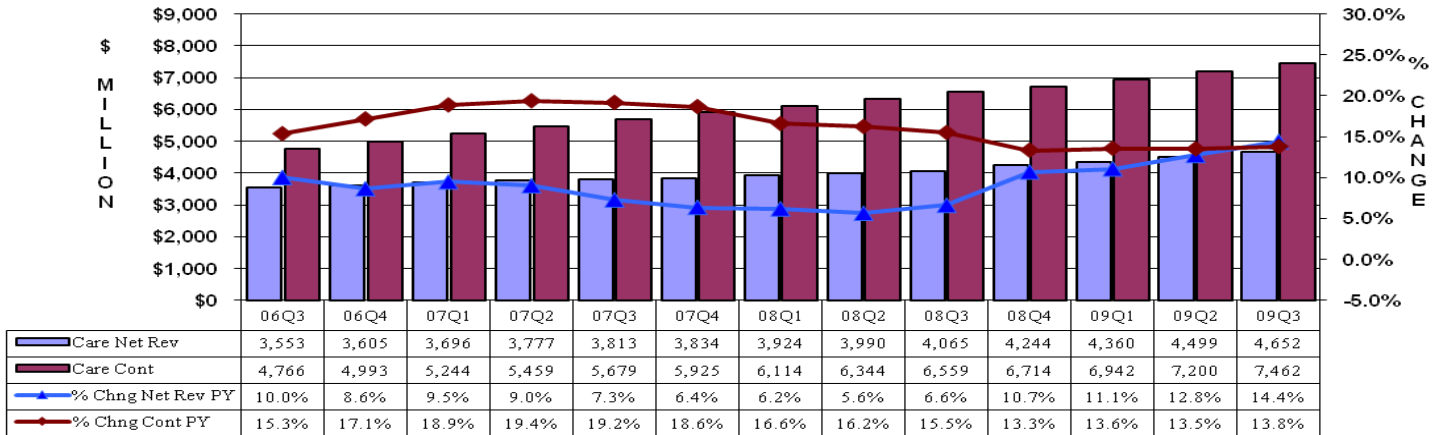
Total Deductions from Revenue



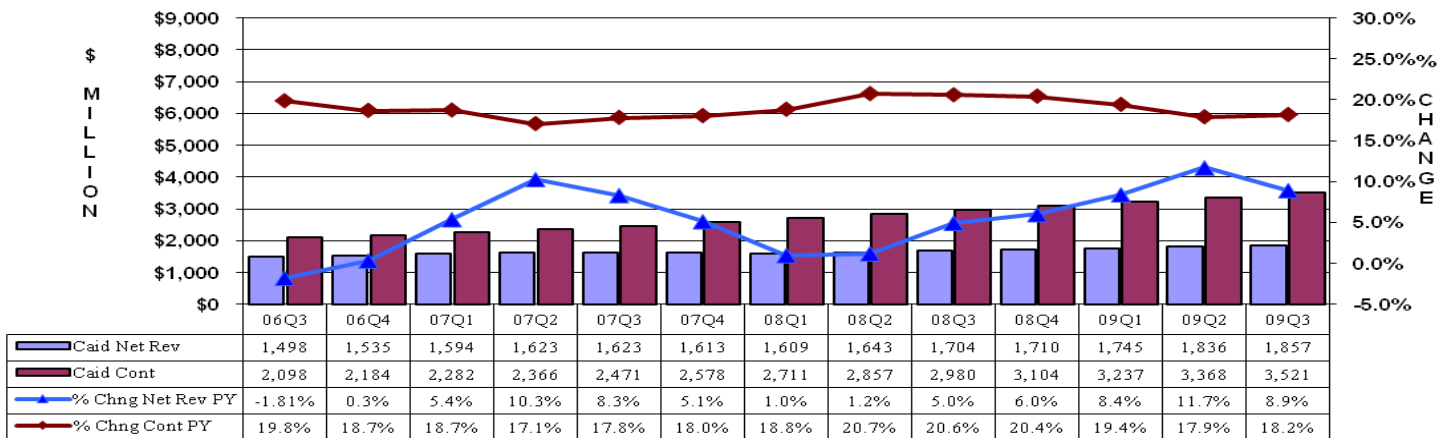
Contractual Adjustments

Contractuals, the most significant part of deductions from revenue, vary by payer. Below are three graphs, one for each payer, Medicare, Medicaid and other. The three graphs are set up so you can see the relative size of the contractual adjustments and the net revenue by payer. The chart shows net revenue and contractuals and the percentage change for each over the prior year period. Other payer has the largest portion of net revenue, \$8.82 billion and deductions of \$8.14 billion. Medicare's net revenue of \$4.65 billion is much less than other however the contractuals are similar to other at \$7.46 billion. Medicaid net revenue was \$1.86 billion and deductions were \$3.52 billion. Based on the hospital's rate sheet, or billed revenue, hospitals bill Medicare an average of \$2.60 for each dollar they receive, other payers an average of \$1.92 and Medicaid an average of \$2.90.

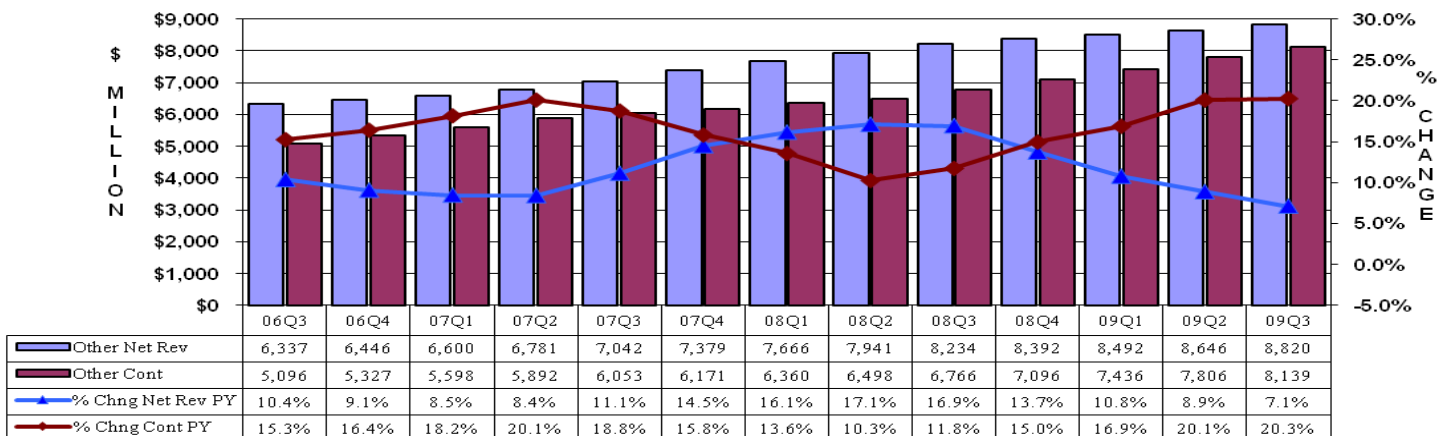
Medicare Contractuals



Medicaid Contractuals



Other Contractuals



Uncompensated Care

Uncompensated care is composed of charity care and bad debt expense. While charity care is part of the deductions from revenue category and bad debt is part of the operating expenses, they are similar. Each represents billed charges for hospital services that are not paid. Charity care represents charges that are not paid by patients who are **unable** to pay, while bad debt expense arises from charges that are not paid by patients who are **unwilling** to pay. During this four-quarter cycle, charity care has grown by 24.86% and bad debt has increased by 14.37%, for a total increase in uncompensated care of 19.61%.

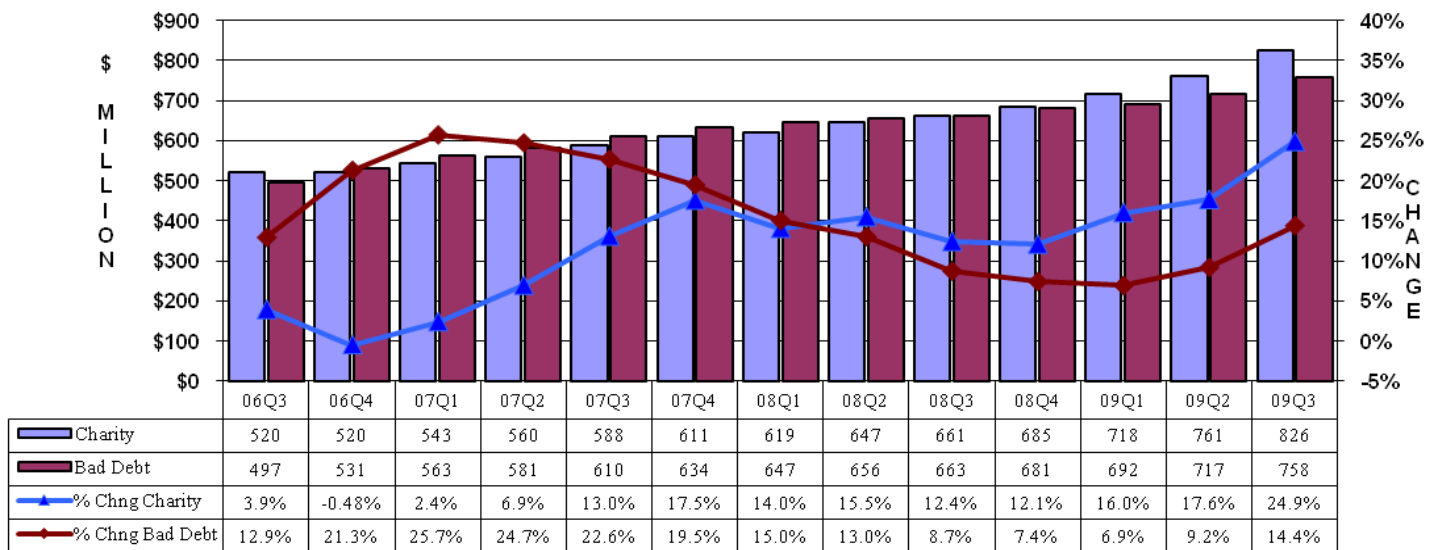
Charity

While charity care is only 2.40% of billed revenue, the dollar amount and percentage have been growing very rapidly during the past five years. Recently, during the September 30, 2008 to September 30, 2009 period, charity care has increased 24.86% or \$164 million.

Bad Debt

The bad debt dollar amount has grown from \$663 million for the four quarters ending September 30, 2008 to \$758 million for the period ending September 30, 2009, which is a 14.37% increase. Bad debt had been slowing its rate of increase since the four quarters ending December 31, 2005 until the last two quarters.

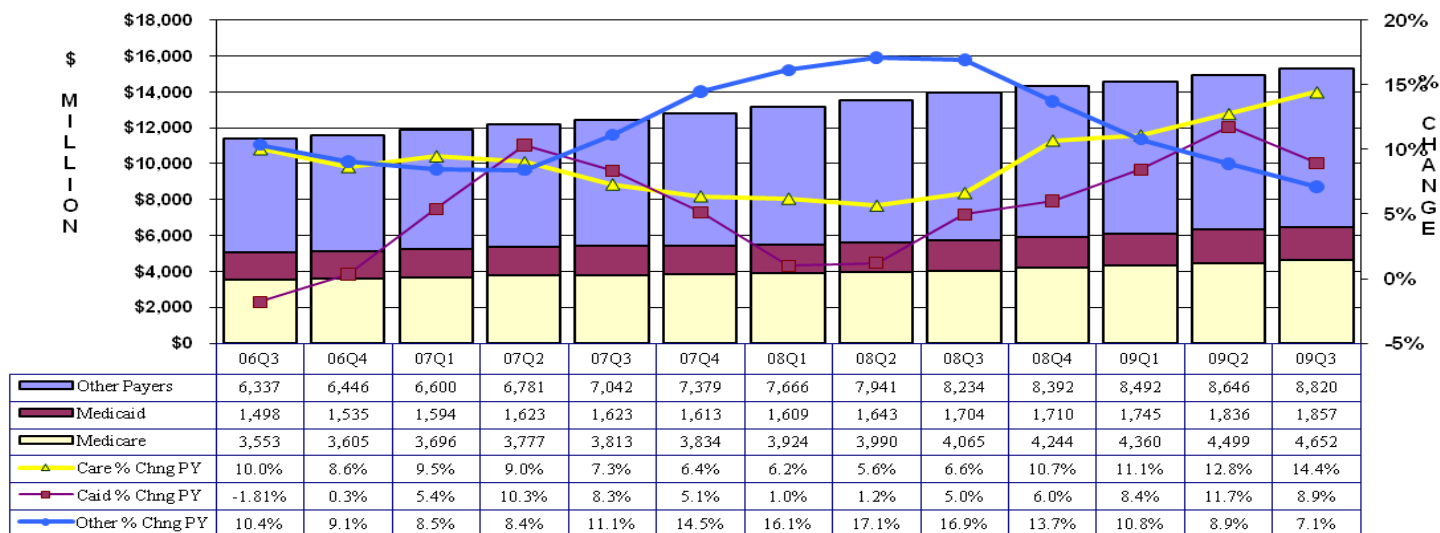
Charity and Bad Debt



Net Patient Services Revenue

During the twelve-month period ended September 30, 2009, net patient service revenue grew by 8.70%, or \$1.16 billion, from \$13.3 billion to \$14.5 billion. Other payer continues its strong percentage and dollar growth (7.12%, \$586 million). The percentage change by payer from the previous year period shows that Medicare had a 14.45% increase and other had a 7.12% increase over the twelve month period ending September 30, 2008. Medicaid revenue increased 14.81% while Medicaid deductions increased by 18.16%, increasing the net patient service revenue for Medicaid by 8.95% from the previous period.

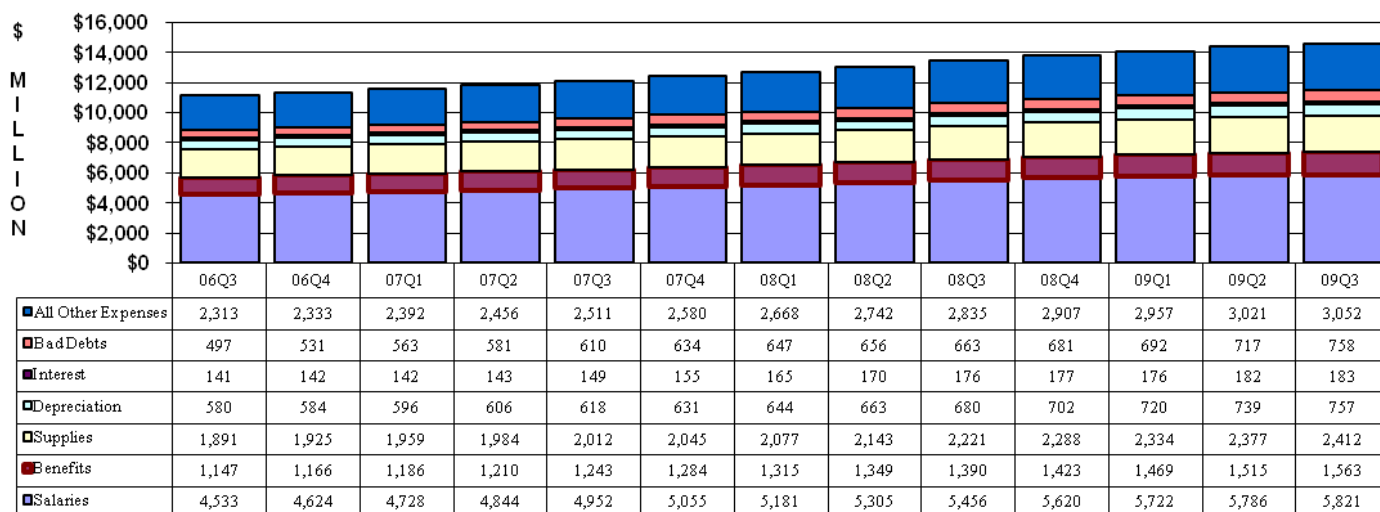
Net Patient Service Revenue by Payer



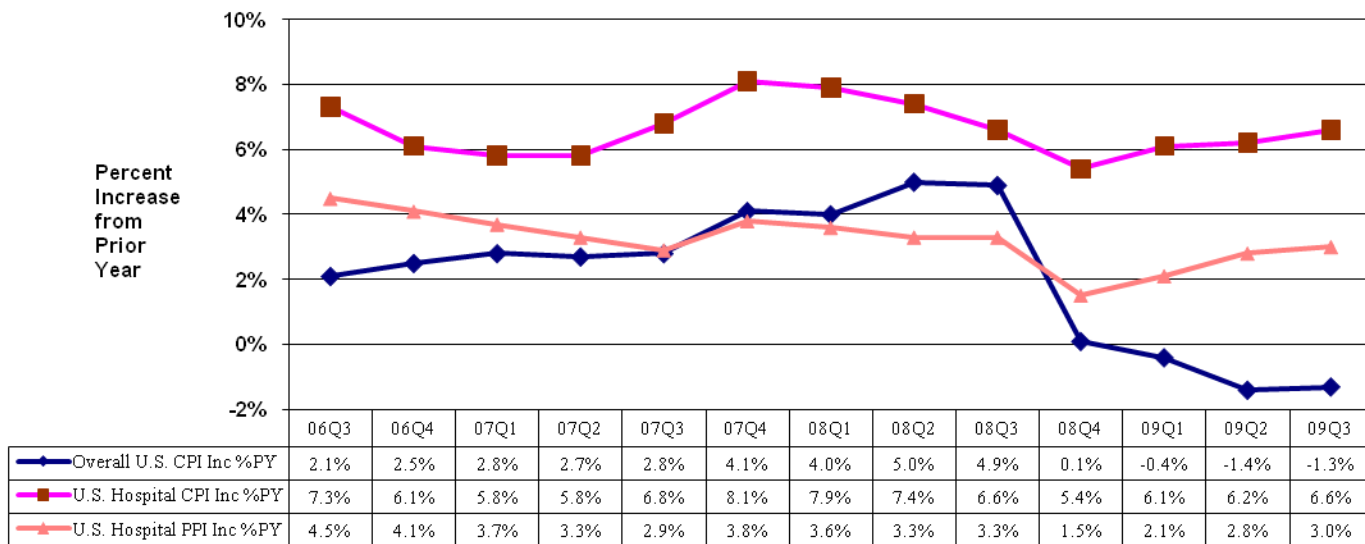
Operating Expenses

Operating expenses are the costs of providing health care services to hospital patients. Growing by 8.39%, or \$1.13 billion, operating expenses reached \$14.6 billion in the twelve-month period ended September 30, 2009. Adjusted discharges only increased 3.84% during the same period. Operating expenses per adjusted discharge increased by 4.38%. The 4.38% increase exceeded the 1.3% annual decrease in the overall United States consumer price index but not the 6.6% annual increase in the United States hospital services component of the index for the same period of September 2008 to September 2009. The category with the largest dollar increase in operating expenses was salaries at 6.7% or \$365 million for a total of \$5,821 million. The category with the largest percentage increase in operating expenses was bad debt at 14.4%, or \$95 million for a total of \$758 million. Interest expense had the smallest dollar increases during the same period as well as the smallest percentage increase.

Operating Expense



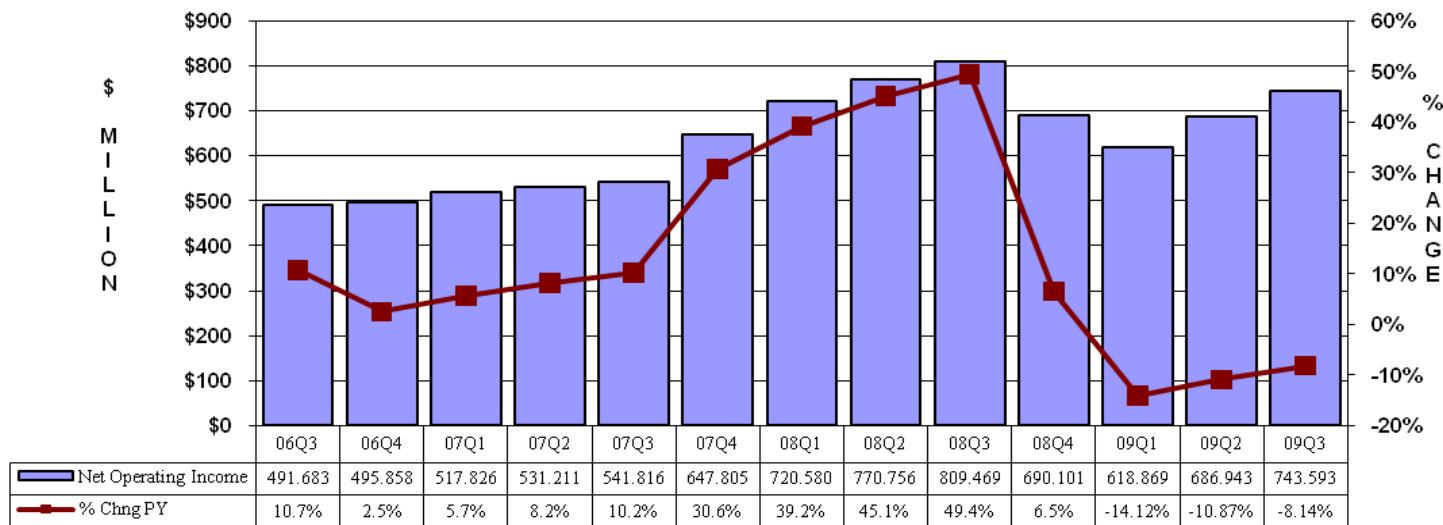
United States Consumer Price Index and Produce Price Index change from previous year (Overall vs. Hospital)



Net Operating Income

During the four quarters ended September 30, 2009 net operating income equaled \$744 million, which was down 8.14% from the year ago level. This is the third lowest rate of growth since the year ending December 31, 2004. Net operating income is volatile due to the large dollars that are involved in the calculation. A small change in the ratio of operating income, which grew 7.46% and operating expense, which grew 8.39%, caused the 8.14% decrease in net operating income. Net operating income includes other operating income.

Net Operating Income

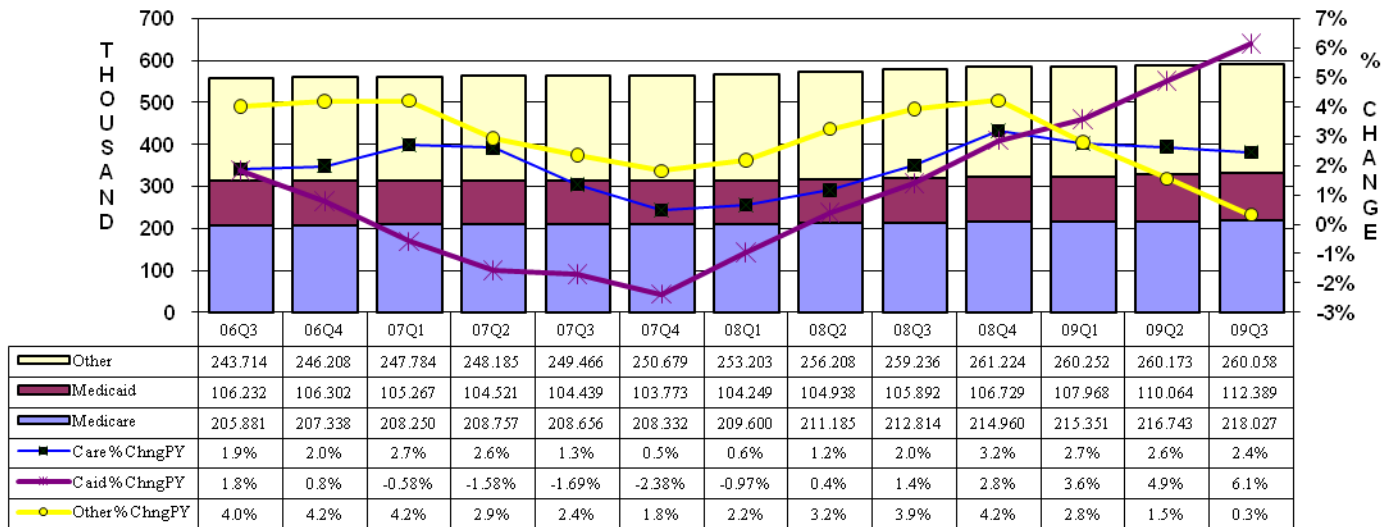


UTILIZATION INDICATORS

Discharges

Discharges and patient days are the primary indicators of inpatient activity. Discharges continued to grow slowly, reaching 590,474 discharges during the four quarters ending September 30, 2009. This was a gain of 12,532 discharges, or 2.17%, over the corresponding 2008 period. Medicaid discharges increased 6.1%, while Medicare discharges increased 2.4% and other discharges increased only 0.3%.

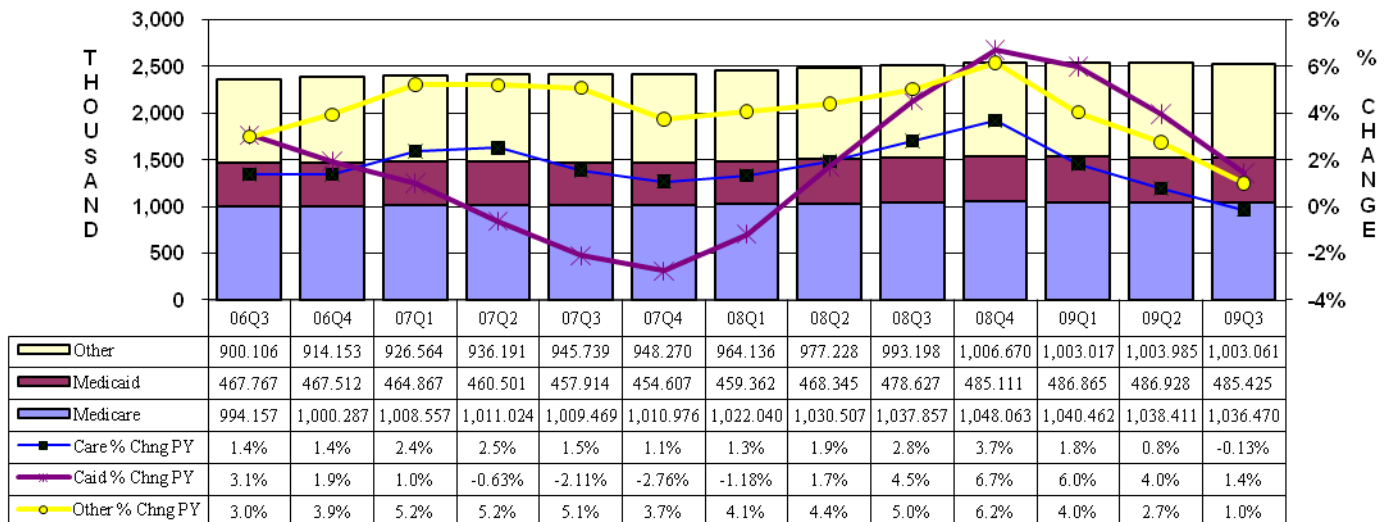
Discharges by Payer



Patient Days

Patient days also continued to grow modestly, reaching 2,524,956 during the four quarters ending September 30, 2009. This was a gain of 15,274 patient days, or 0.61%, over the corresponding year ago period. Medicare days decreased 0.13%, Medicaid days increased 1.4% and other increased by 1.0%.

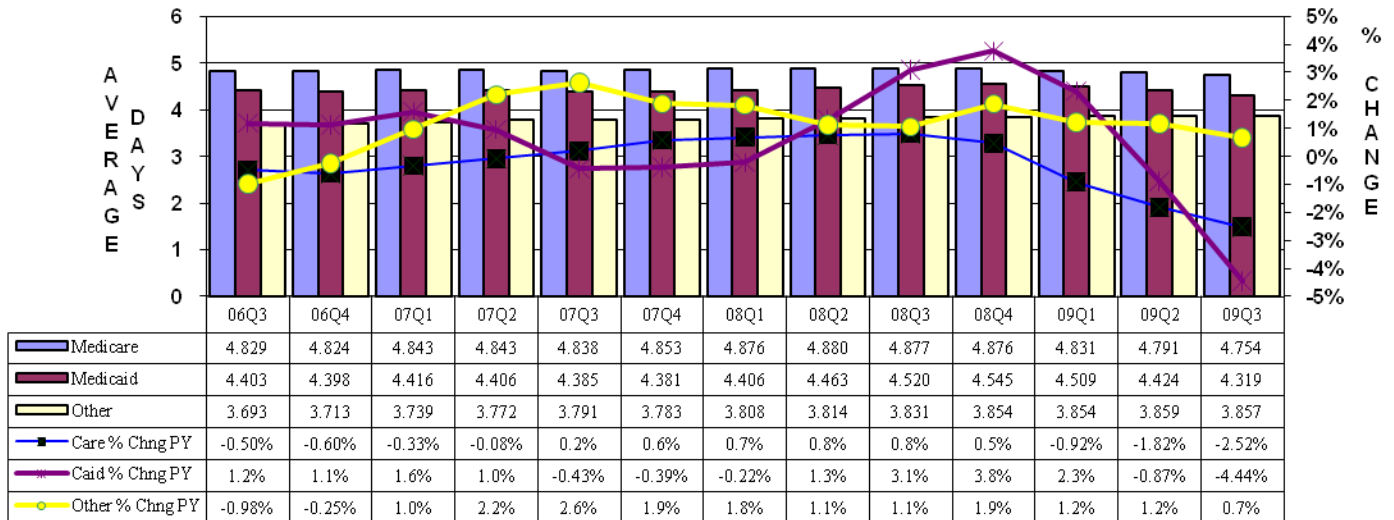
Patient Days by Payer



Length of Stay

Since the percentage increase in statewide discharges during the four quarters ending September 30, 2009 was greater than the increase of patient days, statewide average length of stay decreased slightly to 4.28 days, or 1.53%. During the four quarters ended September 30, 2009, the average length of stay has decreased by 0.07 days from the previous period ending September 30, 2008. In the latest period, Medicare average length of stay was 4.75, Medicaid was 4.32, and other was 3.86. Medicare ALOS was 10.1% higher than Medicaid and 23.3% higher than Other Payer.

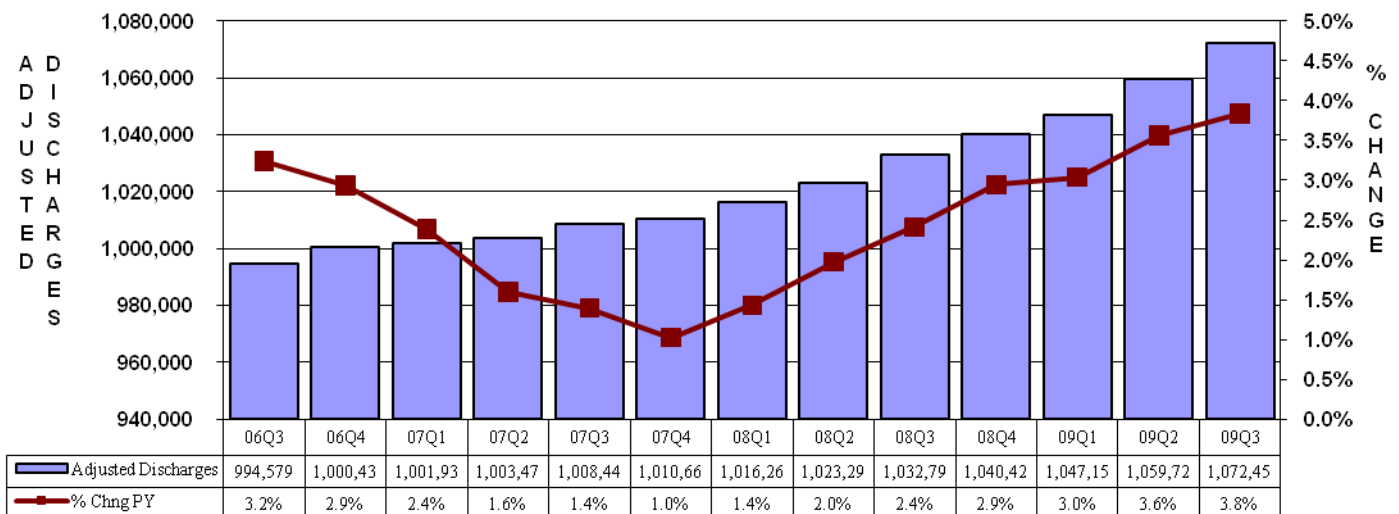
Length of Stay by Payer



Adjusted Discharges

Adjusted discharges reached 1,072,458 in the four-quarter period ended September 30, 2009. This was an increase of 39,662 adjusted discharges, or 3.84%, from the four-quarter period ended September 30, 2008. Adjusted discharges were created as a proxy for total hospital volume since discharges only count inpatients. Adjusted discharges, within the quarterly system, are calculated by increasing discharges by the percent of inpatient revenue to total revenue.

Adjusted Discharges

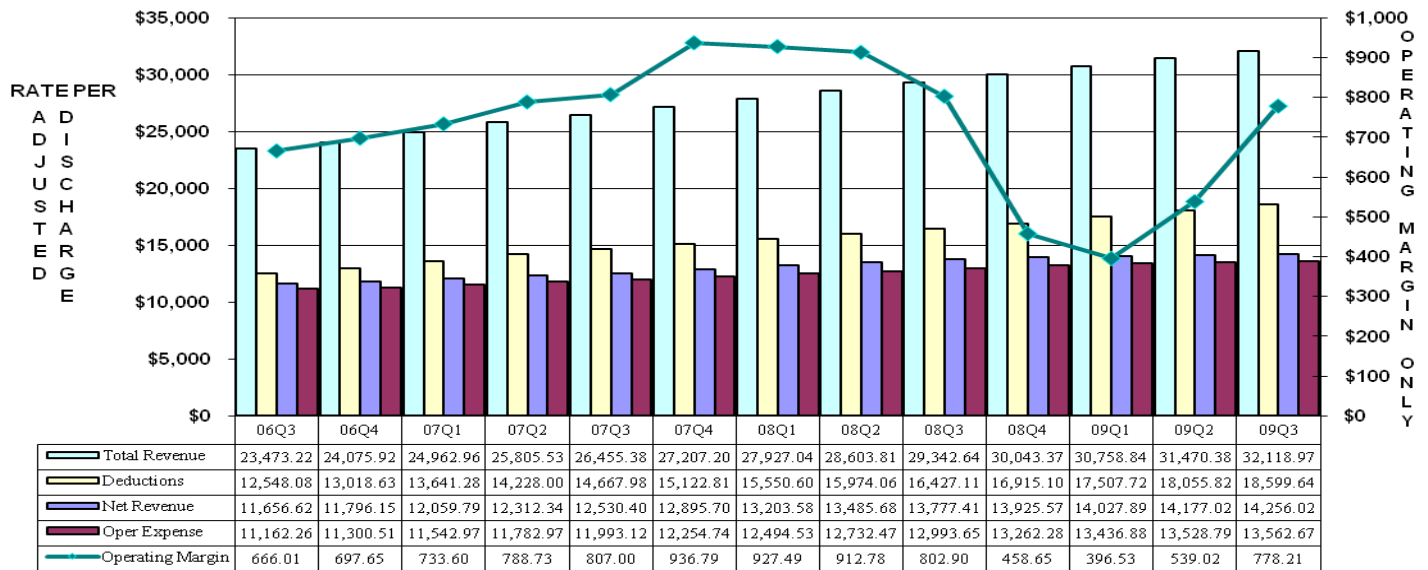


OPERATING INDICATORS

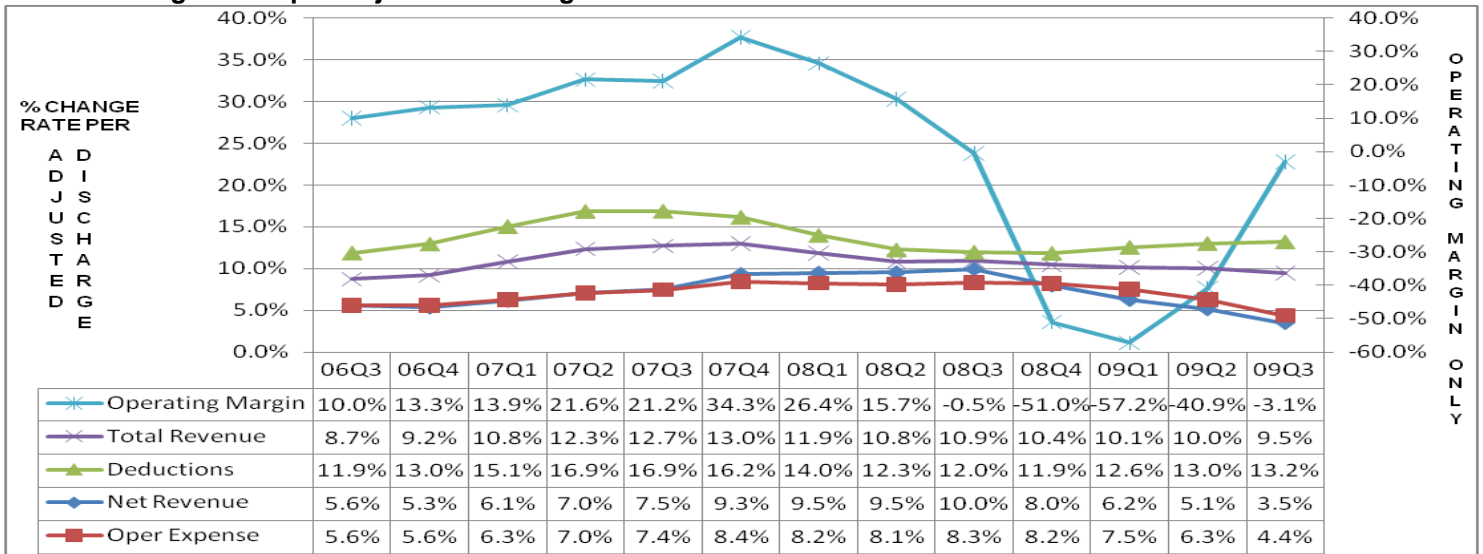
Rates per Adjusted Discharge

When the total dollar amounts for various categories are divided by the adjusted discharge count, the result is an average rate per adjusted discharge. This formula removes volume fluctuation from the review and makes it easier to look at other factors. Total or billed revenue is becoming less relevant each year, as it is now more than twice the actual dollar amount collected. Of note this quarter, while total revenue, net revenue, deductions and operating expense each grew between 3.48% and 13.23% over the previous twelve months, operating margin per adjusted discharge declined 3.08% below the previous year's value. This decline is markedly smaller than the large declines from the previous three rolling twelve-month periods.

Rate per Adjusted Discharge



Percent Change - Rate per Adjusted Discharge



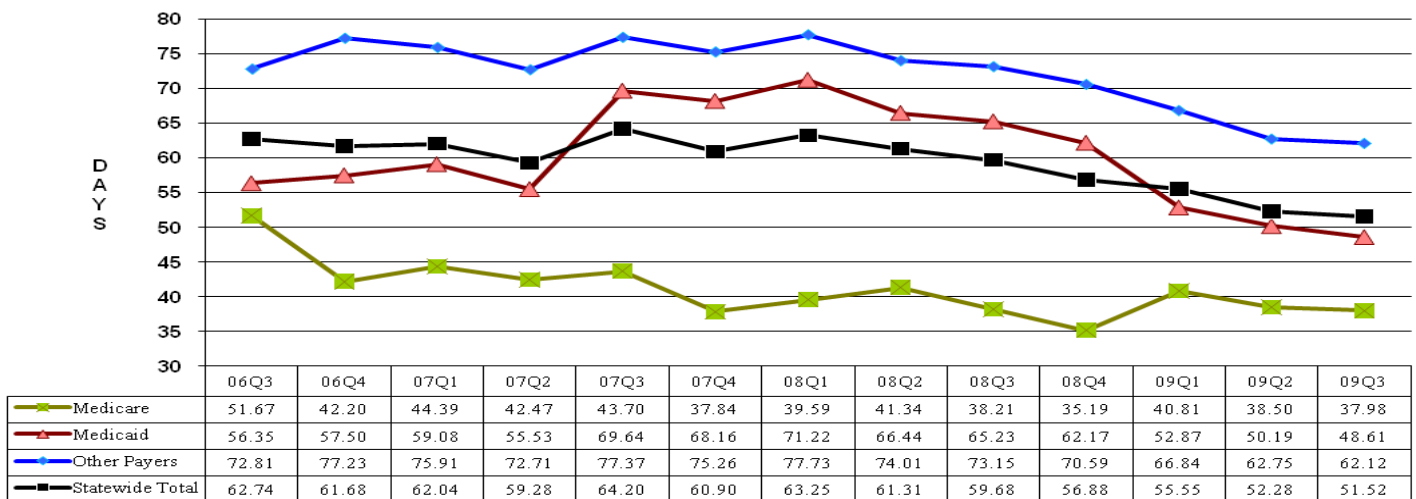
FINANCIAL RATIOS

The relationships between financial indicators are reflected by financial ratios. The financial ratios selected for this report are not all encompassing, but represent financial indicators that can be readily calculated from the data available through the quarterly reporting process as currently designed without requesting supplemental data from the reporting hospitals.

Days in Accounts Receivable

Accounts receivable is the largest item in the current assets portion of the balance sheet for most hospitals. Days in accounts receivable is a measure of how "current" this asset is. In this report days in accounts receivable is calculated on an annual gross basis. Shorter days or smaller numbers are more desirable. On a statewide basis, accounts receivable averaged 51.5 days for the four-quarter period ending September 30, 2009. This was decrease of 8.2 days, or 13.66%, from the corresponding year earlier period. Medicare accounts receivable decreased by 0.2 days, or 0.58%, to 38.0 days. Accounts receivable for Medicaid decreased by 16.6 days, or 25.48%, to 48.6 days. A decrease of 11.0 days, or 15.08%, to an average of 62.1 days was also noted for the other payer groups.

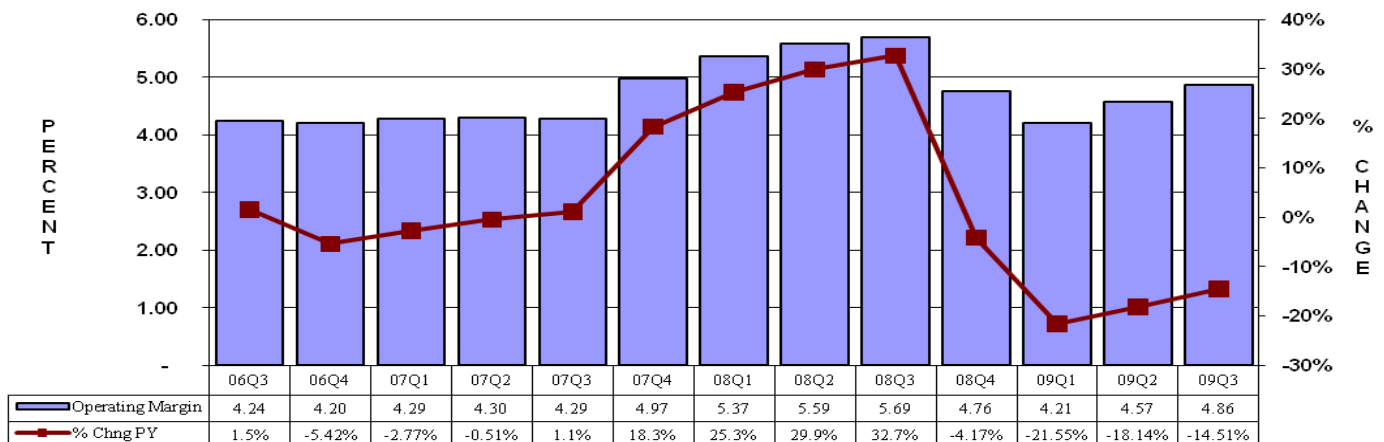
Days in Accounts Receivable by Payer



Operating Margin

During the twelve-month period ended September 30, 2009, operating margin declined to 4.86%, which was 14.51% below the year earlier level. The current period is showing some improvement over the steeper declines shown in the past two periods. Operating margin includes patient revenue and other operating revenue.

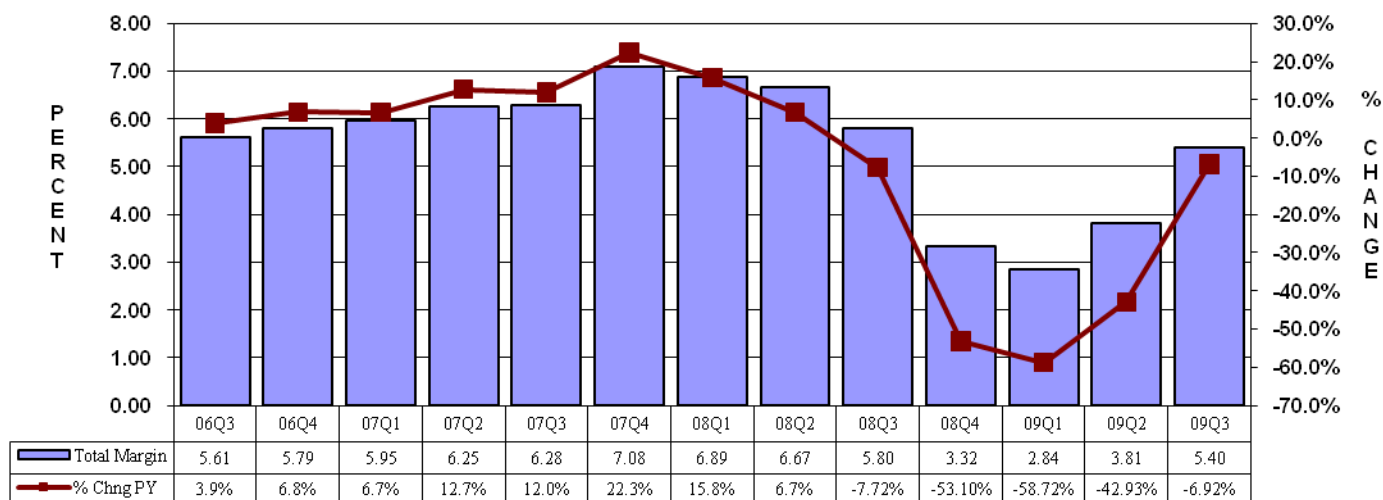
Operating Margin



Total Margin

During the twelve-month period ending June 30, 2009 total margin declined to 5.40%, which was 6.92% below the year earlier level. This is the fifth consecutive decline. Total margin includes operating margin plus extraordinary items, federal income taxes and non-operating income.

Total Margin



Deductible Proportion

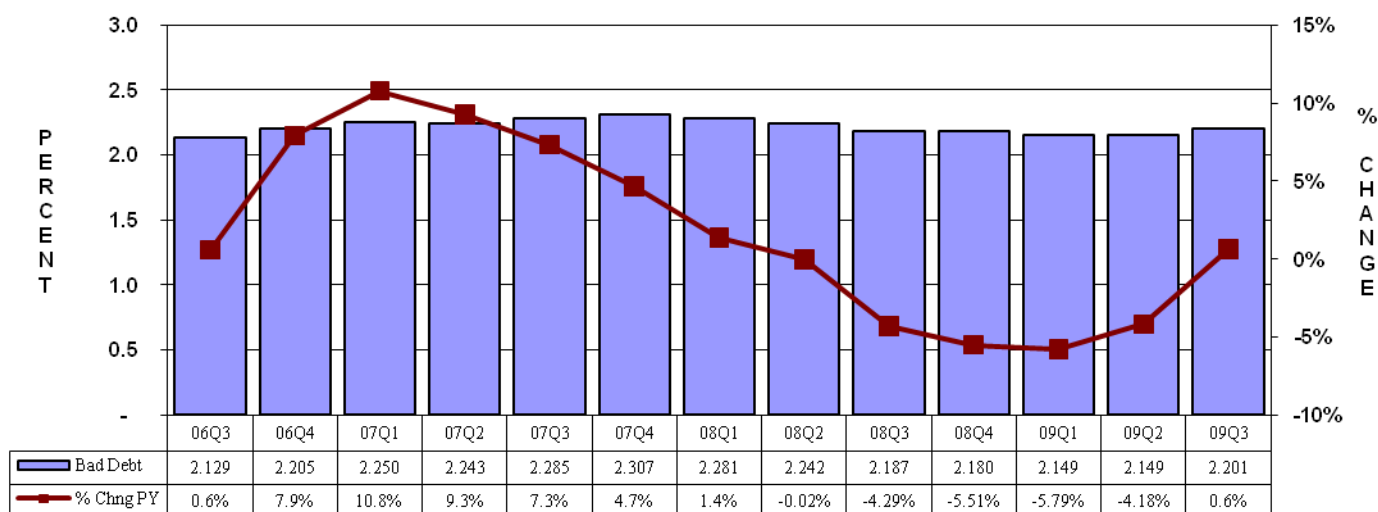
Uncompensated Care Proportion

The bad debt proportion, charity proportion, and total uncompensated care proportion, compare bad debt expense, charity care and total uncompensated care to total patient service revenue. The total uncompensated care proportion was 4.60%, which was an increase of 5.23% over the previous year.

Bad Debt

In the four quarter period ended September 30, 2009, the bad debt proportion reached 2.20%, which was an increase 0.6% above the previous year.

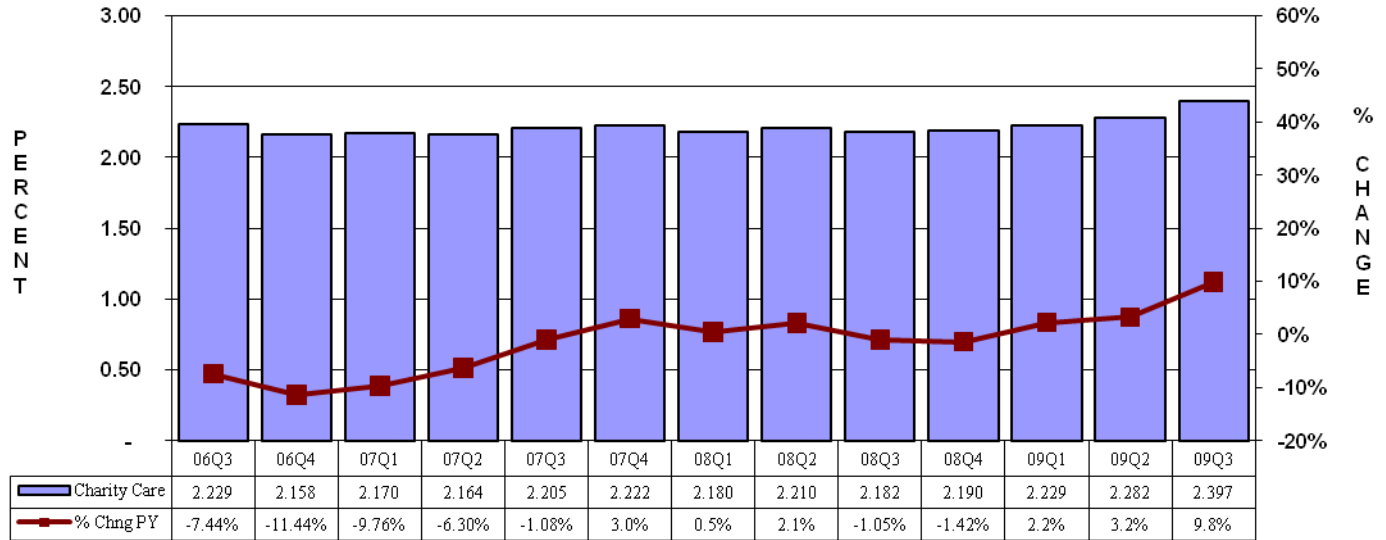
Bad Debt as a Percent of Total Revenue



Charity Care

The charity care proportion reached 2.40%, which was an increase of 9.8% over the previous year.

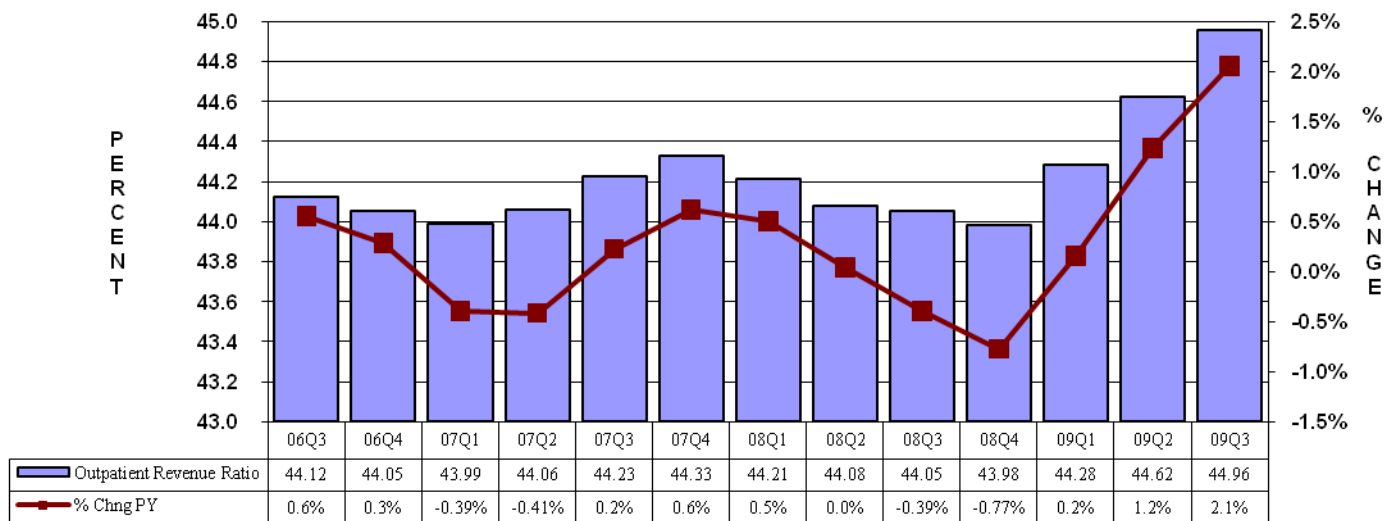
Charity Care as a Percent of Total Revenue



Inpatient and Outpatient Revenue

The outpatient revenue percentage is a way of looking at the relationship between inpatient and outpatient revenue. It is a rough indicator of the change in treatment locations. Between the annual periods, ended September 30, 2008 and September 30, 2009 the outpatient revenue percentage increased from 44.05% to 44.96%, or 2.1%. As hospitals moved procedures from inpatient to outpatient setting over the years, the ratio has gone up dramatically. In 1987, the ratio was 24.2%. Recently the ratio has been between 43 and 45.

Outpatient Revenue as a percent of Total Revenue

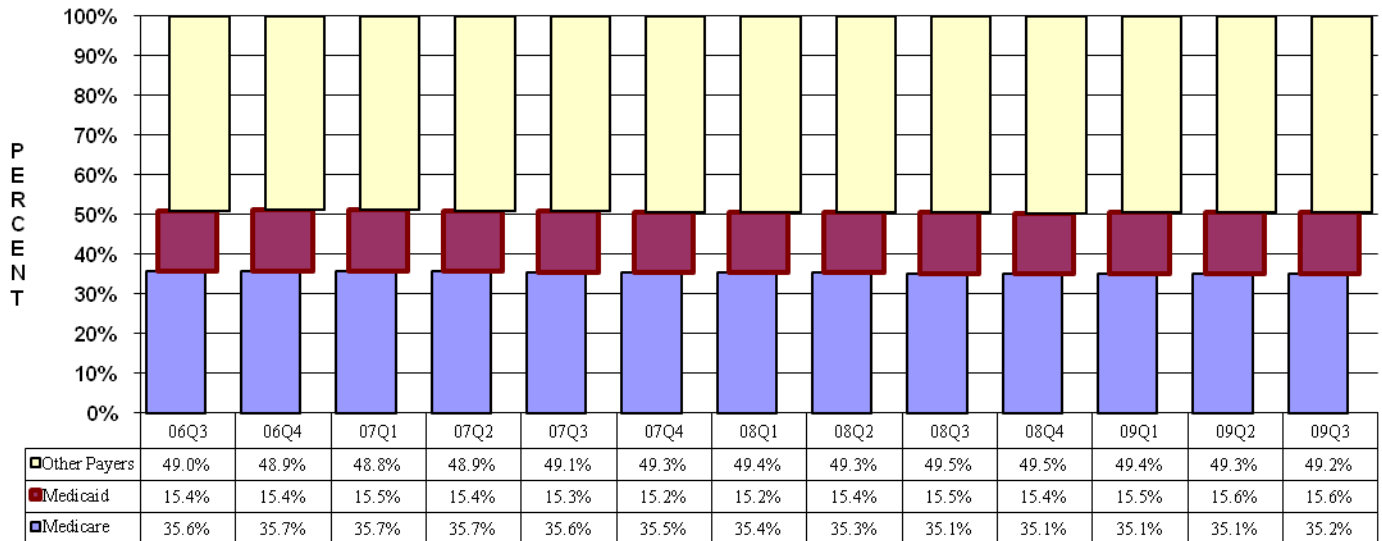


Medicare, Medicaid and Other Revenue

The Medicare billed revenue percentage and the Medicaid billed revenue percentage indicate the proportion of total hospital business that these programs represent. In the four-quarter period ended September 30, 2009 the Medicare percentage was 35.2%, an increase of 0.1% from the same period in 2008. The long-term trend it seems is that Medicaid is relatively steady around 15.5% while other seems to be slowing losing percentage points to Medicare. With 50.77% of total patient service revenue, the Medicare and

Medicaid programs have a major influence on the financial health of hospitals. Over the three-year period depicted in the graph below, the other payer portion has fluctuated within a tight band between 48.9% and 49.5%. The current value for other payer is 49.2%.

Revenue proportion by Payer



HOSPITAL PERFORMANCE STATEWIDE	12 Mo. Ended September 30, 2008	12 Mo. Ended September 30, 2009	Total Change	Percent Change
Total Patient Revenue				
Inpatient	16,958,346,609	18,965,418,244	2,007,071,635	11.84%
Outpatient	13,349,662,917	15,485,403,647	2,135,740,730	16.00%
Total	30,308,009,526	34,450,821,891	4,142,812,365	13.67%
Medicare	10,623,720,982	12,114,171,886	1,490,450,904	14.03%
Medicaid	4,684,145,866	5,377,888,272	693,742,406	14.81%
Other	15,000,142,678	16,958,761,733	1,958,619,055	13.06%
Deductions From Revenue				
Contractual Adjustments				
Medicare	6,558,683,301	7,461,830,673	903,147,372	13.77%
Medicaid	2,980,045,992	3,521,326,269	541,280,277	18.16%
Other	6,765,882,185	8,138,566,940	1,372,684,755	20.29%
Total	16,304,611,478	19,121,723,882	2,817,112,404	17.28%
Charity	661,232,698	825,601,754	164,369,056	24.86%
Total	16,965,844,176	19,947,325,636	2,981,481,460	17.57%
Uncompensated Care				
Bad Debt	662,843,988	758,121,982	95,277,994	14.37%
Charity	661,232,698	825,601,754	164,369,056	24.86%
Total	1,324,076,686	1,583,723,736	259,647,050	19.61%
Net Patient Revenue				
Medicare	4,065,037,681	4,652,341,213	587,303,532	14.45%
Medicaid	1,704,099,874	1,856,562,003	152,462,129	8.95%
Other	8,234,260,493	8,820,194,793	585,934,300	7.12%
Total	13,342,165,350	14,503,496,255	1,161,330,905	8.70%
Other Operating Revenue	890,138,827	790,072,260	(100,066,567)	-11.24%
Total Operating Revenue	14,232,304,177	15,293,568,515	1,061,264,338	7.46%
Total Operating Expenses	13,419,779,671	14,545,387,382	1,125,607,711	8.39%
Net Operating Income	812,524,506	748,181,133	(64,343,373)	-7.92%
Non-Operating Income	(17,486,923)	52,381,881	69,868,804	-399.55%
Tax Revenue	34,195,539	34,036,110	(159,429)	-0.47%
Net Total Income	829,233,122	834,599,124	5,366,002	0.65%
Gross Accounts Receivable				
Medicare	1,112,039,588	1,260,698,894	148,659,306	13.37%
Medicaid	837,169,974	716,279,299	(120,890,675)	-14.44%
Other	3,005,636,136	2,885,470,002	(120,166,134)	-4.00%
Total	4,954,845,698	4,862,448,195	(92,397,503)	-1.86%
Days in Accounts Receivable				
Medicare	38.2	38.0	(0.2)	-0.58%
Medicaid	65.2	48.6	(16.6)	-25.48%
Other Payers	73.2	62.1	(11.0)	-15.08%
Statewide Total	59.7	51.5	(8.2)	-13.66%
Utilization				
Discharges	577,942	590,474	12,532	2.17%
Patient Days	2,509,682	2,524,956	15,274	0.61%
Length of Stay	4.34	4.28	(0.07)	-1.53%
Adjusted Discharges	1,032,796	1,072,458	39,662	3.84%
Rates per Adjusted Discharge				
Total Revenue	29,345.60	32,123.25	2,777.65	9.47%
Deductions	16,427.11	18,599.64	2,172.53	13.23%
Net Revenue	13,780.37	14,260.30	479.93	3.48%
Operating Expense	12,993.65	13,562.67	569.02	4.38%
Net Margin	802.90	778.21	(24.69)	-3.08%
Financial Ratios				
Operating Margin	5.69	4.86	(0.83)	-14.51%
Total Margin	5.80	5.40	(0.40)	-6.92%
Deductible Proportion	55.98	57.91	1.92	3.44%
Contractual Proportion - Total	53.80	55.51	1.71	3.18%
Contractual Proportion - Medicare	61.74	61.60	(0.14)	-0.23%
Contractual Proportion - Medicaid	63.62	65.48	1.86	2.92%
Contractual Proportion - Other	45.11	48.00	2.89	6.40%
Bad Debt Proportion	2.19	2.20	0.01	0.62%
Charity Proportion	2.18	2.40	0.21	9.85%
Uncompensated Care Proportion	4.37	4.60	0.23	5.23%
Total Revenue/Inpatient Revenue	1.79	1.82	0.03	1.64%
Outpatient Revenue Percent	44.05	44.96	0.90	2.05%
Medicare Revenue Percent	35.06	35.17	0.11	0.32%
Medicaid Revenue Percent	15.46	15.61	0.16	1.01%

Notes:

Information

For more detailed information you can visit the Department of Health - Hospital and Patient Data web site at <http://www.doh.wa.gov/EHSPHL/hospdata> for a large variety of hospital data and reports. Included are hospital financial data and reports, hospital discharge data and reports, and Charity Care reports. Also included are Directory of Hospitals, CHARS Procedure Manual, Accounting and Reporting Manual for Hospitals, Charity Care reports and past hospTRENDS.

Your comments and suggestions for improvement would be greatly appreciated. Please let us know what you like or do not like about the content and presentation of the hospTRENDS report. Contact information is on the last page.

Background

All licensed hospitals in the State of Washington submit summary financial and utilization data to the Department of Health following each calendar quarter. Reported data are edited, summarized and analyzed by Hospital and Patient Data Systems staff. Specific data elements are defined in the Department's Accounting and Reporting Manual for Hospitals. Utilizing these data, various financial and utilization rates and ratios are calculated to enhance the description of the financial condition of hospitals in the state. The purpose of this series of reports is to provide information describing emerging hospital utilization and financial trends to all concerned parties.

Rather than focusing on individual calendar quarters, the data in this report are aggregated into twelve-month periods consisting of four calendar quarters each. This aggregation reduces the impact of seasonal fluctuations, which could distort actual trends occurring within the hospital industry.

The period covered by this report includes the last quarter of 2008 and the first three quarters of 2009. However, this preview is subject to change. The quarterly reports submitted by hospitals contain interim data that have not yet been subjected to audit review. In addition, not all hospitals submit data by the required dates. Future adjustments and/or revisions because of both the hospital's internal accounting system review and the formal procedures of outside auditors may result in changes to previously submitted data. These future revisions will be reflected in the hospital's year-end reports. The year-end reports not only reflect audit adjustments but also provide substantially greater detail, which allows analysis of the information provided in greater depth.

hospTRENDS

Washington State

Community Hospital Financial and Utilization Trend Newsletter

Quarter Ended September 30, 2009

For additional information, comments, and suggestions,
or to request extra copies of this report, please contact:

Center for Health Statistics

Hospital and Patient Data Systems

101 Israel Road SE

Post Office Box 47814

Olympia, WA 98504-7814

Telephone: (360) 236-4210

FAX: (360) 664-8579

Electronic Mail: Randall.Huyck@doh.wa.gov

Mary Selecky, Secretary

Department of Health

Dennis M. Dennis, Assistant Secretary

Epidemiology, Health Statistics and Public Health Laboratories

Christy Spice, State Registrar & Director

Center for Health Statistics

Author: Randy Huyck